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high water

a floodplain management newsletter

Volume 44

October 1991

CRS Coordinators Manual Update

The Federal Insurance Administration has just issued an updated version of the Community Rating System (CRS) Coordinators Manual to communities that have expressed an interest in the CRS. The manual is being sent out in looseleaf pages so that it can be placed into a binder for easier use. Please note that only one set of application worksheets is included in the manual. Therefore, you may want to make copies of the worksheets before you begin filling them out.

The August 1991 version of the CRS Coordinators Manual incorporates several changes. Major changes are summarized below.

- (1) The planning activities—240 - Floodplain Management Plan and 510 - Repetitive Loss Projects—have been slightly reorganized. A separate publication titled *Example Plans* provides additional guidance for these plans. See Appendix E of the CRS Coordinators Manual to order this publication.
- (2) Maximum credit for management of five of the seven special hazards (Activity 430) was increased from

35 points to at least 115 points. This change affects alluvial fan hazards, closed basin lakes, ice-jam hazards, moveable bed streams, and areas subject to land subsidence.



All discussion of credit for mapping and management of special hazard areas is now included in a separate publication titled *CRS Credit for Special Hazard Areas*. To order, see Appendix E.

- (3) The discussion of credit for low-density zoning was moved to a separate publication. This credit is now provided in Activity 430 - Higher Regulatory Standards rather than

Activity 420 - Open Space Preservation. The credit remains unchanged, and 1990 applicants don't need to take any special action to maintain their credits.

- (4) In Activity 450 - Stormwater Management, communities may use a default value of 25 percent rather than determine the portion of watersheds affecting the community that are regulated by the community. Communities that regulate a larger portion of their watersheds will continue to find it to their advantage to determine the areas. See Appendix E to order a model plan for stormwater management.
- (5) The credit calculation for Activity 510 - Repetitive Loss Projects has been revised. Most of the potential credit still will be given for acquiring or retrofitting repetitive loss structures.

The CRS Coordinators Manual was mailed in August. If your community is interested in applying for the CRS and hasn't received a copy of the manual, please call Karl Christians in Helena at 444-6654.

FDIC and Freddie Mac Issue New Flood Insurance Requirements

The Federal Home Loan Mortgage Corporation (Freddie Mac) has clarified its flood insurance requirements in a letter to all Freddie Mac sellers and services. The "Flood Loss Mitigation" section of the letter states:

"According to the Federal Emergency Management Agency (FEMA), only 13 percent of the properties located in Special Flood Hazard Areas (SFHAs) are insured against flood hazards. This percentage translates into only 1.4 million insured "household units" out of 11 million units that qualify for insurance under the National Flood Insurance Program (NFIP). This critical gap in protection from flood-related losses is cause for serious concern.

"Uninsured losses from a major flood can severely strain the resources of federal, state, and local governments and can threaten the stability of lenders that have concentrated investments in the areas affected by the flood.

"One reason given for the low volume of flood insurance in force is that for virtually every new flood insurance policy issued, one existing policy is not renewed. Although your quality underwriting and servicing performance have mitigated flood-related losses, we want to reemphasize our flood insurance requirements: You must ensure that flood insurance is obtained and maintained on any property in an SFHA that secures a mortgage sold to and/or serviced for Freddie Mac.

You should also remember the following points:

- Although you may depend on your appraiser to identify whether a property is located in an SFHA, ultimately you are liable to us and may be liable to the borrower for uninsured flood losses resulting from failure to identify flood hazards and to require appropriate insurance....
- You must ensure that flood insurance premiums are paid, whether from escrowed funds or by the borrower. In the latter case, you must have evidence of the borrower's payment. Evidence of insurance and related premium payments are subject to our verification....
- At any time after the mortgage is originated, the area where the mortgaged premises are located may be classified as an SFHA. If you become aware of this new classification, you must notify the borrower of our insurance requirements and ensure that flood insurance is obtained and maintained....
- When servicing is transferred, the transferee assumes all selling and servicing warranties of the transferor, including the warranty that flood insurance is in force when applicable. The transferor must notify appropriate insurers of the change of mortgagee and billing address and the transferee must verify all applicable insurance coverages....

FDIC

Federal regulators and agencies are carefully scrutinizing compliance with the mandatory flood insurance purchase requirements of the Flood Disaster Protection Act. From recent guidelines

issued by FDIC, it's clearly not enough simply to indicate in the mortgage file that a property is either "in" or "out" of an SFHA.

You must also document how the flood hazard determination was made and maintain specific records related to this determination. In a Financial Institution Letter originally dated January 26, 1990, and updated April 30, 1990, FDIC imposes the following requirements:

1. FDIC-supervised financial institutions are expected to maintain sufficient records indicating the method used to determine whether "improved real estate or a mobile home" offered as security for a loan is located in an SFHA.
2. Such records include copies of official maps or reference to specific maps by number, date, and complete panel number (should be a 10-digit number).
3. Records also should include written contacts between the appraiser and any outside resource that performed the flood check.
4. Financial institutions are expected to retain copies of notice provided to the borrower along with the written acknowledgment of receipt.
5. If flood insurance is required, a copy of the insurance policy also should be retained.
6. If the improved real estate or mobile home is located in an SFHA, the institution is expected to maintain the zone designation. If located outside of an SFHA, the institution should include a statement to that effect.

(Courtesy of TransAmerica Flood Hazard Certification, Flood Flash Vol. 1, No. 5)

Flood Insurance: Separating Fact From Fiction

Fiction:

- Flood insurance is unavailable.
- Flood insurance is expensive.
- You have to live in a floodplain in order to buy flood insurance.
- Flood insurance doesn't cover anything.
- Flood insurance doesn't cover basement damage.
- My insurance agent can't sell flood insurance.
- The government sells flood insurance.
- Floodplain maps are never available.
- Flood insurance doesn't cover sewer backup.
- My agent still won't sell flood insurance.

Fact:

- Flood insurance is available in about 18,000 communities.
- Most single-family homes can obtain \$10,000 worth of structural coverage for about \$105.
- **Any** building in a community that participates in the National Flood Insurance Program (NFIP) is eligible regardless of whether it is in a floodplain.
- The standard flood insurance policy covers damage to structures along with personal property inside eligible buildings. A deductible of \$500 applies to all policies.
- Flood insurance provides full structural coverage, including foundation, walls, footings, floors, furnace, sump pump, air conditioner, etc. Only "finished" elements are not covered.
- **Any** licensed property indemnity agent or broker can sell the standard flood insurance policy.
- Only insurance agents can sell flood insurance.
- Floodplain maps are available to you by calling 1-800-333-1363. Copies of maps also may be examined in the local community permit office.
- Sewer backup is covered only if the building is simultaneously damaged by a flood (surface water).
- Flood insurance may be difficult for an inexperienced or uninformed agent to write for the first time. Encourage your agent to learn how by calling 1-800-638-6620. If this doesn't work, find an agent who does sell flood insurance.

Other Important Facts...

- Most homeowners' insurance policies do not offer protection against flood losses.
- Flood insurance is available through the federal government's National Flood Insurance Program (NFIP) and can be purchased through any licensed property/casualty insurance agent or through many private insurance companies now writing flood insurance policies through arrangements with the Federal Insurance Administrator.
- Although there are more than 2 million flood insurance policyholders in the United States, between 6 and 8 million buildings are estimated to be exposed to the risk of flooding.
- Businesses also may be insured through the NFIP.
- Contents of insurable, fully enclosed buildings may be insured by a separate policy, also making flood insurance available to renters.
- Montana's average annual premium for flood insurance protection is about \$240.
- The waiting period between the date flood insurance is first purchased and the date coverage becomes effective is usually five days.
- The purchase of flood insurance may be required as a condition of a mortgage.

Just a Reminder

Last quarter's issue of *High Water* included a survey that asked whether you would be interested in participating in a Montana floodplain management association.

Once formed, the association would:

- (1) Provide its members with a better perception of Montana's floodplain management efforts along with the chance to develop a more cooperative and harmonious relationship through participation in association activities.

- (2) Bring together people experiencing similar types of floodplain management problems and provide them with a variety of solutions.
- (3) Give its members a strong, united voice to communicate their communities' views to the Montana Legislature.

We have received a good response in favor of a floodplain association; however, a number of the surveys haven't been returned. Please take a few minutes to complete the survey, include your name and address, and return it postage-paid. I appreciate your cooperation.

Floodplain Management Guidebook

The Community Assistance Program Manager is now updating the Floodplain Managers Guidebook.

The guidebook will include the following sections:

1. Description of the National Flood Insurance Program
2. Explanation of the Montana Floodplain and Floodway Management Act
3. Description of the Model Ordinance and the construction standards required by the State's Floodplain and Floodway Act
4. Explanation of floodplain management procedures and recordkeeping
5. Description of items a community should consider in implementing a floodplain management program

Temporary Vacancy

Gary Fischer, Floodplain Management Section Supervisor, has accepted a new position in the Dam Safety Section within the Department of Natural Resources and Conservation. Gary will work toward finishing several ongoing projects in the floodplain management section until the vacant position is filled.

Gary has provided the floodplain management section with a level of expertise that will be hard to match. All of us who work in floodplain management will miss him and wish him well in his new job.

The Floodplain Management Section Supervisor position requires someone who has been certified as a Professional Engineer. If anyone is interested in applying for the position, please call our office at 444-6646 for more information.

6. Contents of the State Floodplain Management Law and the Administrative Rule pertaining to Floodplain Law
7. Copies of floodplain ordinances

This guidebook will provide floodplain administrators with a useful tool to help regulate floodplain development. If you would like to receive a copy, please call Karl Christians at 444-6654.

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